

Message Text

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ACTION EA-09

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E.O. 11652: N/A

TAGS: BEXP, BENC

SUBJECT: MAJOR PROJECT - RADJAWALI SUGAR MILL

REF : JAKARTA 8189

BEGIN UNCLASSIFIED

1. EMBOFFS MET JULY 7 WITH MOHAMAD JUSUF (PRESIDENT) AND SUMARGONO (DIRECTOR) OF P.T. RADJAWALI NASANTARA INDONESIA, OFFICE ADDRESS: JL ASEMAKA 18/19, JAKARTA-(95-. MOHAMAD JUSUF INFORMED EMBOFFS THAT RADJAWALI HAD JUST COMPLETED NEW SUGAR MILL AT KREBAT BARU IN MEDIUM AREA, EAST JAVA. CONSULTANTS WERE AGRICONSULT OF HOLLAND, AND PLANT WAS

BUILT BY A.W. SMITH OF BRITAIN WITH ECGD FINANCING; HOWEVER, MOHAMAD JUSUF SAID NO RPT NO GOI, COMPANY, OR BANK GUARANTEES WERE GIVEN TO OBTAIN ECGD FINANCING.

2. MOHAMAD JUSUF THEN INDICATED THAT RADJAWALI NOW PLANNING

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BUILD SECOND MILL, PREFERABLY IN NGANJUK AREA, NEAR

MEDIUM, AND HAS ALREADY OBTAINED EAST JAVA GOVERNOR'S SUPPORT FOR PROJECT. GOI OFFICIALS HAVE UNOFFICIALLY SURVEYED AREA, AND MINISTER OF AGRICULTURE'S CONCURRENCE HAS BEEN REQUESTED FOR HIRING CONSULTATNTS TO CONDUCT FORMAL FEASIBILITY STUDY. FEASIBILITY STUDY NEEDED TO SEEK FINANCING, WHICH GOI HAS STIPULATED MUST BE "BUYER'S CREDITS", PRESUMABLY MEANING EXIM-TYPE FINANCING. MOHAMAD JUSUF INDICATED THAT FINANCING PACKAGE WOULD NEED INCLLDE CREDITS FOR LOCAL COSTS, PREFERABLY FROM EURODOLLAR MARKET, BECAUSE HE BELIEVES LOCAL BANKS UNABLE SUPPLY MEDIUM TERM RUPIAH CREDITS AND DOMESTIC INTEREST RATES ARE HIGH.

3. POSSIBILITY UTILIZING EXIM FINANCING FOR SUCT RPOJECT, PERHAPS INCLUDING FEASIBILITY STUDY, MAY REQUIRE FURTHER INVESTIGATION. UNLIKE GOI-MANAGED PTP/PNP'S INVOLVED IN CURRENT GOI TENDER FOR SIX SUGAR MILLS, RADJAWALI IS LIMITED COMPANY UNDER DIRECTION OF INDEPENDENT BOARD OF DIRECTORS CHARED BY MINISTER OF FINANCE. ORIGINALLY A PRIVATE COMPANY, IT WAS TAKEN OVER BY GOI; BUT 75 PERCENT OF AUTHORIZED CAPITAL YET TO BE PAID IN AND COULD EVENTUALLY BE SOLD TO PRIVATE INVESTORS. IN SHORT, ALTHOUGH GOI IS TECHNICALLY SOLE CURRENT SHARE HOLDER, COMPANY IS MANAGED MORE LIKE PRIVATE FIRM THAN STATE AGENCY. EMBOFFS THEREFORE ASKED WHETHER GOI WAS WILLING SERVE AS OBLIGOR FOR FUTURE RADJAWALI PROJECT FINANCING. MOHAMAD JUSUF'S REPLY DURING MEETING SUGGESTED GOI WOULD NEITHER BE OBLIGOR NOR PROVIDE GUARANTEE; HOWEVER, NEXT DAY SUMERGONO TELEPHONED EMBASSY TO CORRECT THIS IMPRESSION, STATING THAT MINISTRY OF FINANCE WOULD IN FACT BE OBLIGOR.

4. EMBASSY BELIEVES THIS PROJECT WARRANTS SERIOUS INVESTIGATION BY US FIRMS, PARTICULARLY SINCE LIMITED COMPANY STATUS SHOULD ENABLE RADJAWALI MAKE RELATIVELY QUICK, INDEPENDENT DECISIONS RE CONTRACT AWARDS AND FINANCING, E.G., KREBET BARU PROJECT WAS BROUGHT ON STREAM WITHIN THREE YEARS FROM DATE ORIGINALLY CONCEIVED. RADJAWALI MANAGEMENT INDICATED THAT ONCE MINISTER APPROVES PROJECT CONCEPT, DECISION-MAKING LARGELY IN COMPANY'S HANDS WITH GOI MOSTLY EXERCISING REVIEW AUTHORITY. RADJAWALI MANAGEMENT CLEARLY UNDER-LIMITED OFFICIAL USE

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STANDS "TOTAL PACKAGE" CONCEPT OF PROPOSAL EVALUATION, A CONCEPT WHICH US BIDDERS HAVE UNSUCCESSFULLY SOUGHT OPPORTUNITY PITCH TO TENDER EVALUATION TEAM ON SIX GOI PROJECTS.

5. ACTION REQUESTED: MOHAMAD JUSUF HOPES BEGIN CONSTRUCTION WITHIN ONE YEAR, AND INDICATED HE WOULD WELCOME APPROACH BY INTERESTED US FIRMS, BOTH FOR CONSULTANT WORK

(WHICH MINISTER MAY APPROVE THIS MONTH) AND FOR EVENTUAL TURNKEY CONSTRUCTION OF PROJECT. EMBASSY REQUESTS MEPD CONVEY ABOVE INFO TO KATY FULTON, ARKEL, AND ANY OTHER POTENTIAL US BIDDERS. HOWEVER, PLEASE TO NOT RPT NOT PUBLISH OPPORTUNITY FOR MASS DISTRIBUTION UNTIL RADJAWALI ABLE OBTAIN MINISTER'S APPROVAL PROCEED. END UNCLASSIFIED.

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6. COMMENT: SUBSEQUENT TO COVNERSTION WITH RADJAWALI EMBASSY RECEIVED COPY OF CABLE SENT JULY 9 BY MAN CALLED "PROBOKESO" OF P.T. KARLI COMPANY TO JEWETT OF ARKEL. CABLE, WHICH SENT OVER NAME OF KARLI PRESIDENT SYAMSI MINTAPRAJA, REFERS TO ARKEL'S "NEGOTIATIONS" WITH RADJAWALI RE "SUGAR FACTORY DEAL" AND TAKES "LIBERTY OF OFFERING OUR COOPERATION" TO CREAT SUCH "DEAL". SINCE PROBOKESO HAD REQUESTED JEWETT'S NAME FROM EMBASSY STAFF MEMBER FOLLOWING EMBOFF DISCUSSION WITH RADJAWALI AND SINCE IN PREVIOUS CONTACTS WITH PROBOKESO WE HAVE BEEN UNABLE DETERMINE HIS EXACT RELATIONSHIP TO EITHER KARLI COMPANY (A FAMILIAR LOCAL FIRM) OR PROJECTS HE CLAIMS BE "PROMOTING". EMBASSY CALLED RADJAWALI AGAIN. RADJAWALI INDICATED THEY KNEW KARLI BUT NOT RPT NOT PROBOKESO, AND THEY SAID THAT ARKEL OR ANY OTHER US FIRM COULD CONTACT RADJAWALI DIRECTLY. WHILE IT IS NOT RPT NOT UNCOMMON PRACTICE HERE ON PROJECTS INVOLVING GOI-OWNED COMPANIES TO WORK THROUGH PRIVATE AGENTS AND SUBCONTRACTORS PERSONALLY CLOSE TO MANAGERS OF GOI-OWNED COMPANY, EMBASSY RECOMMENDS THAT INTERESTED US FIRMS APPROACH RADJAWALI MANAGEMENT DIRECTLY, KEEPING OPTIONS OPEN TO SUCH SUGGESTIONS AS MANAGEMENT MAY IN TURN MAKE. END LIMITED OFFICIAL USE.

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